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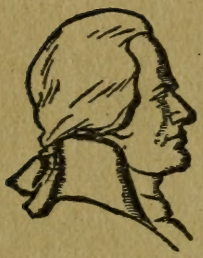
THE PLAY OF FORCES



MODERN BUSINESS
TALK No. 4

ALEXANDER HAMILTON INSTITUTE
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The Play of Forces

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READING ASSIGNMENT
NUMBER FOUR

"In its highest form money economy represents a condition of society in which no one produces any article whatever for his direct personal consumption."—Page 207, Chapter XII, Volume 2 of the MODERN BUSINESS Text.

1) Read this Talk on "The Play of Forces."

The ability to analyze a business situation, so as to perceive what should be done to avert failure and to insure success, is a qualification essential to the big, broad-gauged business man. This Talk points out a few of the principles involved.

(2) Read from Chapter X to the end (pages 158 to 315) of "Economics of Business," which is the second volume of the MODERN BUSINESS Text.

(3) Study the situation described in Problem 2 and send in your solution for criticism.

You have no doubt already discovered that the subject of Economics is treated in a very practical manner. Altho essentially a scientific study, Economics, as treated by our author, is readily understandable to every business man and of inestimable benefit to him.

The leaders in business are men who have studied and thought all their lives. They have thus learned to decide big questions at once, basing their decision upon their knowledge of fundamental principles.—JEREMIAH W. JENKS.

The Play of Forces

> *"The entrepreneur must show more ability in business matters than his competitors or be reduced to a standing less pretentious than his rivals'. Moreover under the competitive system, . . . the loss does not fall upon the community . . . but upon the individual who originated and financed it."*—Page 293, Chapter XVII, Volume 2 of the MODERN BUSINESS Text.

When in January, 1908, No. 2 Foundry Pig Iron tumbled from $27.40 to $18.10, it made a bankrupt of Roger Johnson, as unfortunately it made of others in his line of business. He had watched the metal climb from about $18.00 in June, 1906, to $27.00 in December of the same year and to gain another 40 cents by May, 1907. Then, in less than a year, it was back again at $18.10.

Prior to the crash that ruined his business, Roger Johnson was sole owner of one of the biggest and best-managed iron foundries in northern Wisconsin. Tho reputed to be fond of driving a hard bargain, he was at the same time a most generous man. He was usually credited with excellent business judgment and had a good command of men. He sometimes boasted that he could take a contract against any competitor and—what was equally important—he was able to select the right kind of salesmen and so train them that they, too, could go out and get the business.

Those who had known him found it difficult to believe that Roger Johnson could become what he is today: a penniless and—far worse—a beaten man. At the very height of his prosperity, he suddenly went down with a crash. He is still vigorous physically, he still has ability and he has hundreds of good friends. But it is extremely doubtful that he will rise again. There is, in fact, no real place for him among the business men of this generation.

That anything should go wrong with Roger Johnson, was the last thing expected by his friends. Yet his case is only one among a thousand where strong men go down after a blind struggle with stronger economic forces whose onward sweep they do not understand and are unable to resist. For this Wisconsin iron founder was a better judge of men than of conditions. And he was satisfied to draw his information chiefly from those he met in the course of business. Accordingly his outlook upon business was limited by the extent of his own personal acquaintanceship.

So long as business is merely of local character and limited scope, a concentrated outlook may serve its ends. But when business is exposed to conflicting, world-wide forces and tossed about, such limitation is likely to prove dangerous.

It required a thinker and student, in the broadest sense of the term, to understand the trend of events in the iron and steel business during the years 1905, 1906 and 1907. Many who, like Roger Johnson, depended upon their own observations or upon the opinions of associates, reached an altogether wrong conclusion. Between the summers of 1904 and 1905 there had been a large increase in new construction work and in the general consumption of iron and steel. This was followed by a sharp rise in prices that brought sudden prosperity to the whole industry. With some fluctuation there was a steady increase in consumption and a corresponding rise in prices. This continued until May, 1907—only five months before the great crisis of that year began.

Skilled and far-seeing men, from their points of vantage in the conning towers of giant industrial corporations, were watching these movements, searching everywhere for information that might throw light on the situation; consulting specialists in banks, in other corporations and in universities. They were silently watching and slowly foreseeing the outcome. These men assured themselves that the abnormal financial conditions had brought about an excessive amount of investment construction—that is, construction of new plants, office buildings, railroad terminals and the like—which in turn was followed by what is sometimes called "necessity construction" —that is, enlargements of existing plants and facili-

ties to meet the situation created by investment construction. It became evident to thoughtful men early in 1906 that for the time being investment construction was practically over and that necessity construction would cease shortly at the first symptom of decreasing demand. They therefore began to cut down operations, to accumulate ready cash and otherwise prepare for the coming storm.

Thus, during a little more than one year before the storm broke, the United States Steel Corporation is said to have added in this way over $30,000,000 to its cash resources.

The Optimism of Ignorance

But the lessened activity of the larger corporations only spurred Roger Johnson and others like him to greater efforts in the attempt to get new business. Apparently, his efforts were crowned with success. All about him was optimism. New projects of all kinds were under consideration. He was assured by all he spoke with that the country had entered upon a new era of industrial development; that a demand for his product would grow and grow for many years to come, and that the display of a little courage now, by way of adding to his investment, would insure enormous profits within a short time.

And Roger Johnson, carried off his feet by all this evidence of prosperity, joined in the scramble for funds, with which to enlarge his plant and increase his output. He incorporated his business, sold bonds, sold stocks, increased his borrowing and entered into

extensive contracts. He was just about completing the betterment of his plant and was getting ready to start deliveries on some of his best contracts, when the crash came. In less than one month it was all over. He had little incoming business; there was no way left to secure funds; insolvency and receivership followed promptly. There were not enough assets to pay the creditors of the business; and to save anything for Roger Johnson himself, beyond the meager exemptions granted him by law, was of course out of the question.

> *A man may understand his business from A to Z; he may read men like an open book, and be able to market the entire output of his plant, yet be ignorant of the fundamental principles upon which the life of his business depends.*

Roger Johnson's opinion as to the value of studying such subjects as "Money, Credit and Prices," "International Trade and Foreign Exchange," "Profits the Reward of Management," covered in the current reading assignment, has probably by this time undergone some change. Experience is always a good teacher, tho usually an expensive one.

Any one, however, who imagines that the study of such subjects as are included in this assignment is unprofitable in a business sense, thereby discloses the smallness of his own conception of business. To use even the simplest tool effectively, it is necessary to understand how it came to exist at all and why it

exists in its present form. Ask the next farmer you meet why his plow share has such a peculiar shape, how his axe is balanced and why; what are the ingredients of the fertilizer he uses and why; and you will find that the intelligent, money-making farmer of today knows these things thoroly. And there is little doubt that he uses his tools and materials all the more effectively for having given some thought to their history and to the principles that are followed in their construction and composition. The shiftless farmer, on the other hand, isn't interested in such things. His notion of managing a farm successfully is to follow the rules given in the almanac and to blame the weather for his failures.

And what is true about farming and the farmer is equally true of business and the business man.

> *If inefficiency were removed from the conduct of business, a large economic waste would be avoided. For this, however, a knowledge of basic Economic principles is indispensable.*

As we proceed in this assignment to the chapters on "Wages," "Interest," and "Rent," we reach questions that to some extent, at least, fall within the experience of every business man, no matter how limited his field and outlook. No one is in business long without coming in contact with questions of wages and of the many factors that are involved in their adjustment. But that wages have

a scientific aspect is not realized by all. To many, that subject is largely one of driving a bargain—obtaining the greatest amount of service for the least amount of money. Chapter XIV, however, shows that this is far from being the case. Indeed, wages is a matter of market conditions just as much as the price of any commodity.

Success Thru Control of Workers

The question of wages involves another question, that, namely, of controlling the men in such a way as to make them produce to the full extent of their capacity. And this again involves an understanding of their relations in an economic sense to the community. It is necessary, in other words, to comprehend their aims and their needs.

"It depends upon the nature of the business," a well-known manufacturer was in the habit of saying, "whether it can get along with cheap labor. As for us, we can not. But we can and should make it possible for our people to earn sufficient wages to enable them to live comfortably and well."

Such an attitude toward the workers is, of course, simply enlightened self-interest, and business men are learning that the cheapest help is not necessarily that which is paid the lowest wages. On Third Avenue in New York is a prosperous shoe store that some years ago had all it could do to make ends meet. The owner was a man who believed that every dollar cut from an employe's salary added that much to

the profits of the business. He paid his clerks only from $8.00 to $12.00 a week.

Had this store been in a small town, the wage question might have been different. But Third Avenue in New York, tho not a first-class retail street, is in the center of a wonderful market for shoes. Tens of thousands of people pass up and down that thorofare every week-day. Few of them, however, entered the store. Here was a situation worthy of close, analytical study; yet the shoe merchant scarcely studied it at all. To him the lack of business was largely a case of "bad luck." Finally, discouraged and impoverished, he sold out and moved West to seek a new start in a more responsive community.

The man who bought this Third Avenue store was a student of fundamental business principles. He reasoned that since the market existed, there must be some way of making it produce a profit for him. He changed his clerks from the eight-dollar-a-week to the twenty-dollar caliber, but told them that in order to earn what they felt they were worth, they must prove their claim to being worth it. "Boys," he said, "we have a fine opportunity here if only we put our shoulders to the wheel. There are plenty of people who live in this neighborhood—thousands of them. We have a good line of shoes. It is up to us to sell them. Now, I am going to put you on a premium system. You will draw ten dollars a week salary and in addition a premium based upon the volume of sales that you make. Moreover, the man who

suggests the largest number of profit-winning ideas during the year will receive a ten per cent increase in salary. This business is yours as well as mine. When you wait on a customer, forget that I am the proprietor. Handle the sale as if the stock were yours. Think of *your* profit!"

The natural consequence was that each of the men took a personal interest in the welfare of the business, and as a result the sales rapidly climbed even higher than the expected mark. One of the clerks developed into an expert in window display that gave the store a distinctive character and contributed in no small measure to the growth of the business.

The real reason for the store's earlier stand-still lay in the proprietor's failure to understand that a worker must be paid in accordance with what he produces, that he must be given opportunity to produce to his fullest capacity, and that if denied this he will move to a place where he will have that opportunity. The new proprietor understood this essential law of business and followed it. His success was the natural result.

> *The first step in the successful handling of men—no matter what their positions in a business—is to provide opportunity for the display of ambition and for the development of ability.*

Interest and Rent versus Profit

The chapters on "Interest" and "Rent" (XV and XVI) contain much that contributes to a cor-

rect understanding of the subject. The causes that influence the interest rate, for example, are important enough to justify consideration by every business man. So also with regard to the subject of rent, which in its various forms of royalty, building rents, agricultural rents, etc., is one that cannot lightly be passed by.

A successful railroad owner said, on one occasion, that he attributed his success to the fact that he knew the difference between rent and interest, on the one hand, and profits on the other. "Some men," he said, "are content with five, seven or perhaps ten per cent interest on their money, and for that they throw in their labor and imagine they are doing pretty well. As for me, I am not an interest man. If I had been one, I would never have been known outside my home town. . The man who really knows what profits are and how they are made is not likely to be content with rent or interest. He'll evolve methods that will return him real profit. The profits are usually to be had if you go after them right. Many fail to get them because they don't know how to go after them."

Why business men should overlook such factors as rent, interest and their own services when calculating their profits, is not clear. Still, they do it—and then wonder what the trouble is when the estimated profits fail to materialize. A man who had $10,000 invested in an apartment building, figured his net profits to be $800, this being the sum that went into his pocket after he had paid taxes, repairs and general

upkeep. He was inclined to boast about his wise investment, but he did not realize that his failure to take into account his own work of supervision—time taken away from his business—made his investment show a smaller income than he thought.

The current reading assignment also includes a discussion of the subject of profits. We have become familiar with the laws of production and with those of exchange and are now ready to consider how the fruits of the producer's labor are distributed among the factors that share therein. In order that we may understand clearly the principles involved in determining gross and net profits, competitors' profits, monopoly profits, etc., the author in Chapter XVII takes us over much interesting ground, in the course of which he deals with illegitimate profits as well as those that rightly belong to the producer.

He Violated an Economic Law

A common error resulting in the reduction of profits was exemplified in connection with the recent failure of a business which for many years had been more than ordinarily successful. At the time of the difficulties, and for three years prior thereto, the business was directed by the son of its founder after the latter's death.

The son, whose ambition to success in a big way appears to have exceeded his business judgment, evidently worked on the theory that if a business earns a certain amount upon investment of a certain sum, the doubling or trebling of the investment will

correspondingly double or treble the earnings. At any rate, by disposing of other investments, he was able to increase substantially the working capital employed in the business.

But results were decidedly disappointing, and tho making a fair rate of profit, the business was within two years brought to a point where creditors had to step in and take charge. The young owner had unconsciously violated an important economic law—that, namely, of diminishing returns. Too much capital may wreck a business almost as easily as too little capital. In the former case it is not only that such excessive amount is unproductive, but that it is likely to result in needless or extravagant expenditures, in the purchase of an elaborate and extensive equipment, in the extension of too much credit, and in laxity in making collection. To this may be added the temptation on the part of the proprietor to live beyond his income and to put forth insufficient effort.

> *"In business as elsewhere, strong ambition, when not governed by fundamental knowledge, is like a runaway horse with the bit in its teeth. Progress is rapid but likely to come to a sudden and disastrous halt."*

The Drift of Opinions

The whole question of profit and wages is closely linked with what is commonly called the "Social

Order." That subject is particularly interesting in view of the prominence now given to questions of socialism, labor unionism, and the competitive industrial system under which we live.

Are labor unions justifiable as a social force in the protection of workers? And if justifiable, is this movement successful in its efforts to better working conditions? Again, if successful in enforcing their demands upon employers, are the labor unions justified in the means used to that end? The strike, the boycott, intimidation and violence, are these morally and socially right or wrong? May, for example, a union decree that on a certain day and hour the huge transportation machinery of a metropolitan city shall be stopped even tho thereby millions of persons are put to serious inconvenience in going to and from their homes and business, and tho business thruout the city is, for the same reason, hampered and made to suffer? Moreover, may the union, in order to make its decree effective, attempt to prevent others from taking the strikers' places and seek to destroy the property of their former employers?

To these questions some answer unhesitatingly "Yes." Many more would qualify their justification of such a course. Others again would condemn not only the course but the unions with all that they stand for. Which is right? Of course, as long as the law permits strikes, the strikers are within their judicial rights. But the question in the minds of many is: "Should not legislation deal with the strike question

in such a way that the disorder, inconvenience and money loss occasioned by a strike that affects the public generally, might be prevented?" It is a growing belief among business men and others that transportation companies and public service corporations, at any rate, should be protected by law against the interference of labor unions when such interference affects the operation of the service.

These are some of the questions that agitate the minds of thinking men at the present time and that demand solution in the near future. How to protect the worker and at the same time guard the rights of the employer, is not always an easy problem. But the growing feeling appears to be that the rights of the great public are superior to those of either employer or employe.

It is, after all, an economic question that can be solved only thru an understanding of economic principles.

Taken all together, this assignment furnishes much material of great value to the man who wishes to go beneath the surface in dealing with such subjects as those indicated herein. A study of sound business principles and their right use cannot fail to bring the deserved reward to every one who diligently applies himself to the task, whether he be an executi e or one who is working his way up thru the ranks.

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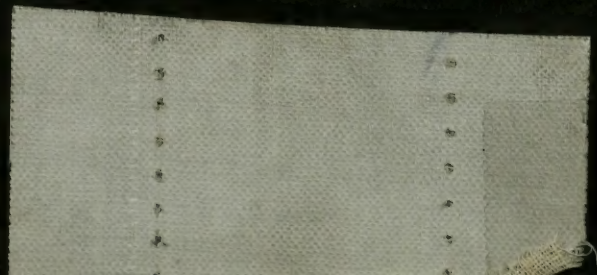

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